

# Weak Demand

## Air Transport

Japan's civil aviation industry has suffered a serious setback in fiscal 1991 after years of solid progress. The downturn resulted from the outbreak of the Gulf War in August 1990, which exacerbated an ongoing business slowdown.

Domestic passengers on Japan's airlines increased by only 5% in the first half of fiscal 1991 to 35.63 million as growth in demand slowed on trunk routes. For the full fiscal year, total domestic passengers are likely to total 68 million, with a lackluster growth of between 4% and 5% from the previous year, while the number of seats available will have increased by a robust 9% due to expanded services into Haneda airport since December 1990, the inauguration of new routes in July 1991, and an increase in departures from airports in Western Japan. Overall, the average load factor dropped to 74% in the first half of fiscal 1991 from 76.1% a year before, and was expected to sag to 71% for the full 12 months.

The Gulf War depressed passenger levels on international flights throughout the first half of fiscal 1991. While the number of Japanese nationals traveling abroad bounced back to previous-year levels in July, the first half finished down 0.2% from a year before.

Demand is expected to remain weak in fiscal 1992 due to the business slowdown. As the number of seats for flights depart-

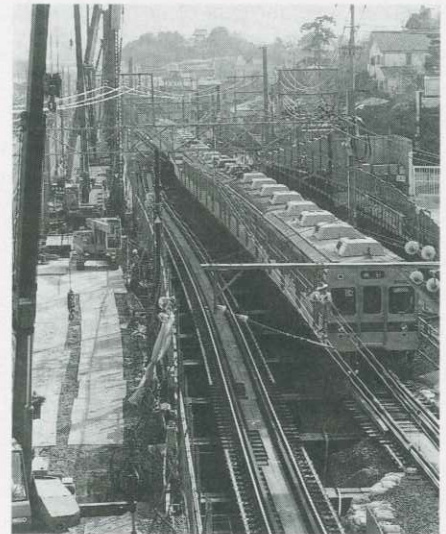
ing from and arriving in the Tokyo metropolitan area has already reached the upper limit for available facilities, any new routes to be established in 1992, whether domestic or international, will have to use regional airports, and cannot be expected to sharply boost total passenger numbers.

It remains to be seen how possible reductions in traveling costs following downward revisions of international air fares to be implemented successively from late fiscal 1991 will spur demand for international flights.

## Land Transport

The four Shinkansen lines, previously owned by a public corporation, were transferred to three major JR railway companies in October 1991 for a total price of ¥9,176.7 billion (\$70.6 billion). The move was aimed at facilitating stock sales for the three JR companies and raising funds for the construction of three new Shinkansen lines launched in September 1991. The transfer cost will be refunded in installments over 60 years.

The sale and public offering of the three JR companies, originally scheduled for fiscal 1991, has been delayed due to a bearish stock market, while sales during the year of land owned by the defunct Japanese National Railways (JNR), intended to help pay off JNR debts, are not likely to fetch the hoped for prices. Both



Japan's major private railways have raised fares to help cover deficits resulting from their huge investment in expanding capacity.

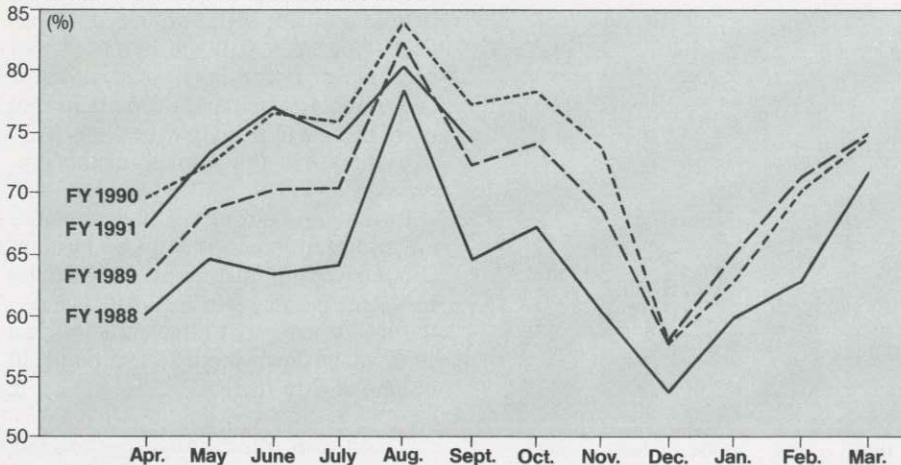
the listing of the JR companies and the settling of JNR debts will hinge on the fortunes of the stock market.

Thirteen major private railways in the Kanto and Kansai regions raised their fares in November 1991 for the first time in three and a half years to help cover deficits resulting from their huge investment in expanding capacity to ease congestion. The move narrowed the fare gap with JR companies, and should intensify competition between private railways and the JR Group in areas where they operate side by side.

The trucking industry had been favored by the increased volume of freight and higher charges during the business expansion and labor shortages of the past few years. Since early fiscal 1991, however, road cargo transport has slackened, underlining the general business slowdown. Frequent deliveries of small amounts of items, a typical Japanese distribution practice, worsens traffic jams and air pollution from exhaust emissions. At a time when the public is becoming increasingly concerned about environmental issues, land transport companies are finding it necessary to shift to other transport means and to take other measures to avoid damaging the environment.

(Kazuho Fujiyama, economist)

Load Factor Trends on Domestic Routes



Sources: Air transport monthly statistics and data of Ministry of Transport